Legal & General

Investing with confidence for your retirement

Your guide to pension investment options and risks

Contents

2
Introduction

3
Investing for your retirement with confidence

4
Why there are risks when investing

5
Types of investment

6
Understanding assets, regions, sectors

7
The importance of diversification

8
Helping you choose where to invest

10
Helping you manage your investments

Introduction

With workplace and private pensions now more flexible than ever, it's never too soon to start thinking about what your retirement could look like. As you can take your workplace or private pension from age 55,* there are two main things to consider: how you'll use your pension, and how you'll invest the rest.

If you plan to take a drawdown or lump sum, this guide is designed to help you understand your options and attitude to risk when investing any remaining pension. All investments carry some degree of risk, and the funds you invest your retirement savings in are no exception.

We can help you understand your options, with our retirement planning service. It's delivered by our own regulated financial advisers, who'll look at your relevant financial information and discuss your options. They'll use products from a selection of reputable providers, including Legal & General.

* From April 2028, the normal minimum pension age will increase from 55 to 57.

Investing for your retirement with confidence

Along with a product's specific features, there are three areas to consider when deciding on your approach to investing for retirement.

Our advisers are here to support you. They can help you decide on three important investment factors:

1. Time

Time is an important factor when choosing how to invest, so it's important to understand your timeline for the future, now.

Before investing, your adviser will encourage you to think about how long you're willing to invest your money for. This can help identify the right products for your needs, and the amount of risk you are willing to take.

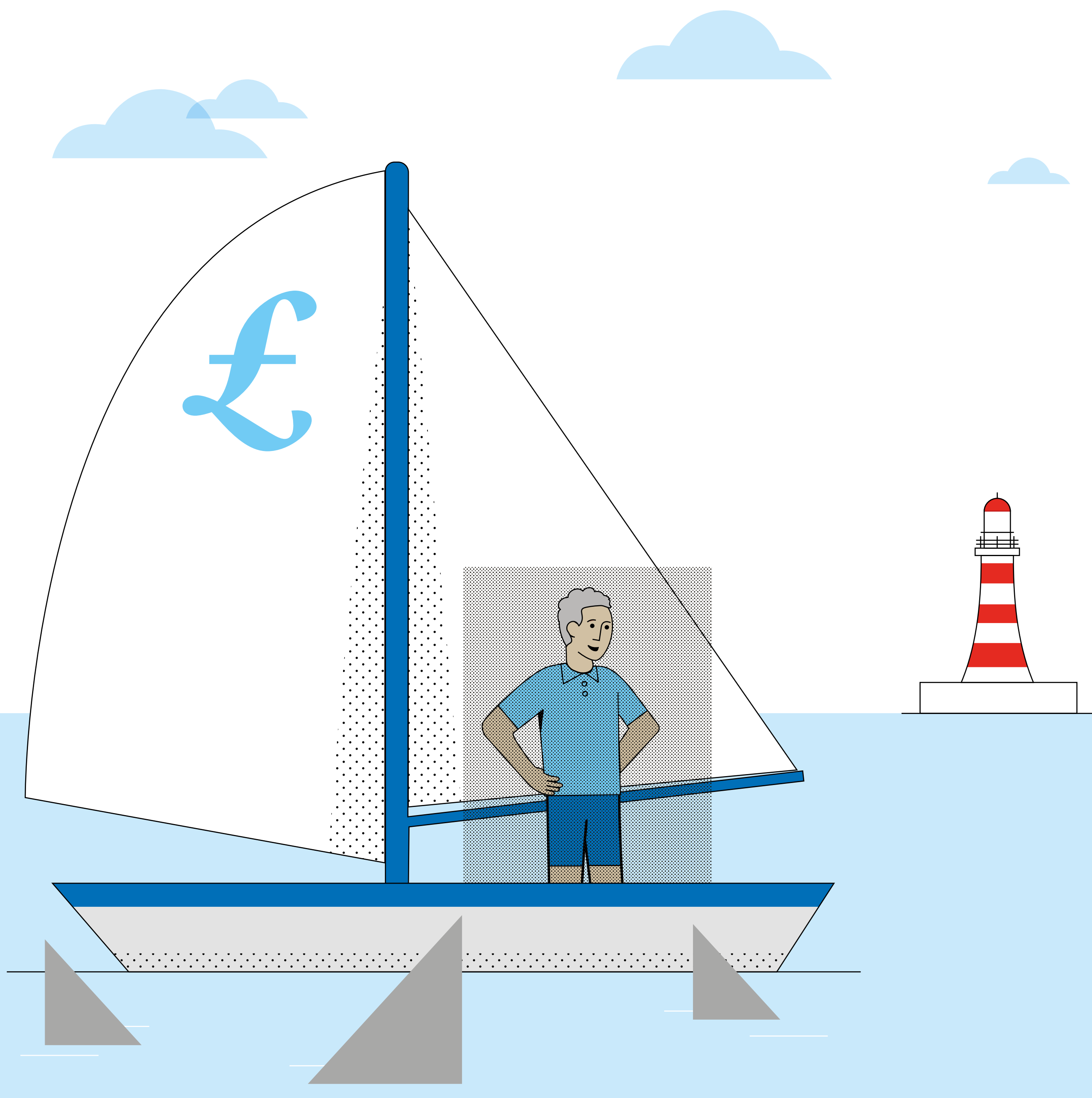
You can access the money in your investment at any time, but ideally you should keep it invested for five years or more. This can give your money more time to weather any market ups and downs. Investments can fall in value as well as grow, meaning you could get back less than you first invested.

2. Your investment goals

Your investment goals should influence the amount of uncertainty you're willing to take on. Many of us make investments with targets in mind. Your adviser will work with you to understand your needs, investment goals, and your attitude to risk. This will help them to make personal recommendations.

3. Your attitude to risk

When weighing up investment risk, it's also important to think about your personality and the amount of uncertainty you're comfortable with. Are you quite a cautious person who hates the idea of volatility from ups and downs in the market? Or are you willing to be slightly more adventurous if there's the opportunity for higher returns? Either way, your adviser will use a risk assessment to help you understand your attitude to risk.



Why there are risks when investing

We know investing can seem confusing. That's why we offer an advice service, where we make recommendations based on your attitude to risk, and your investment objectives.

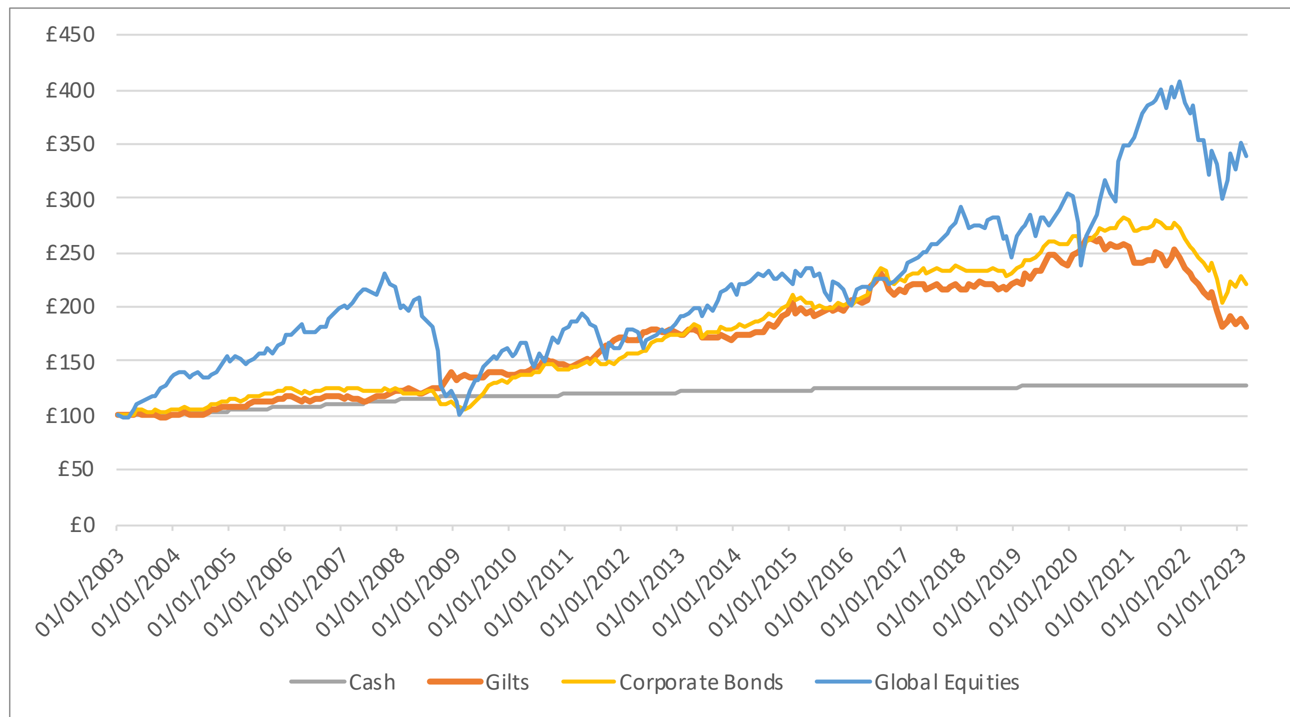
All investments carry some risk, and the funds where you invest your retirement savings are no exception. We consider the level of risk you're willing to expose your money to, before we recommend any funds. We review the potential hazards of different funds depending on their management style, and the assets, regions and industries they focus on.

If you're new to the world of investing, risk may seem worrying and something that shouldn't be taken lightly. Your investments could go down as well as up, which means you may get less back than you put in. The risks attached to a particular investment product are often determined by the potential returns it could offer. Products aiming for strong gains can prove riskier than those seeking slow and steady returns.

Types of investment

You might come across the term ‘asset classes’ when investing. Asset classes are investments that are grouped together because they have similar characteristics.

Examples of asset classes include, equities (also known as stocks and shares), fixed income (known as bonds, cash and cash equivalents), gilts, real estate, currencies and commodities. A commodity usually refers to a raw material used to manufacture finished goods.



Information in this graph

This graph is an example of how different types of asset class can behave over time and is not representative of any specific investment funds.

The sources for this particular graph can be found in the box below.

- All projections based on the assumption of £100 invested on 31/01/2003. Shows 20-year cumulative returns.
- Results shown on nominal basis (ie does NOT reflect inflation/changes in purchasing power over time)

Past performance is no guarantee of future returns.

Corporate bond returns based on ICE BofA Sterling Corporate Total Return Index (UR00). Source: Bloomberg.

Global equity returns based on MSCI ACWI Total Return Index in local currency. Future returns may increase or decrease due to currency fluctuations. Source: Bloomberg.

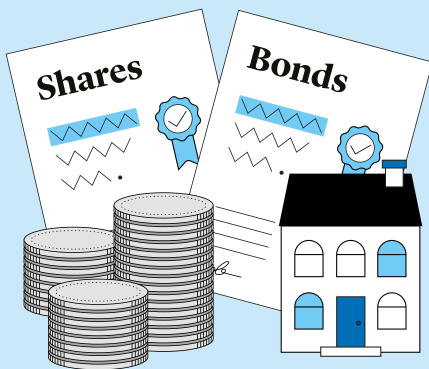
Cash is based on historical data from Bank of England for instant-access deposit accounts. The time series reference is CFMHSCV.

Gilt returns based on ICE BofA UK Gilt Total Return Index (G0L0). Source: Bloomberg.

Understanding assets, regions and sectors

When it comes to investing, it's important to consider the type of investment fund that meets your investment objectives. An investment fund is the vehicle used to pool your money with that of other investors, and is managed by a fund manager.

Your money could be spread across dozens or hundreds of different asset classes, regions and sectors from all over the world.



Assets

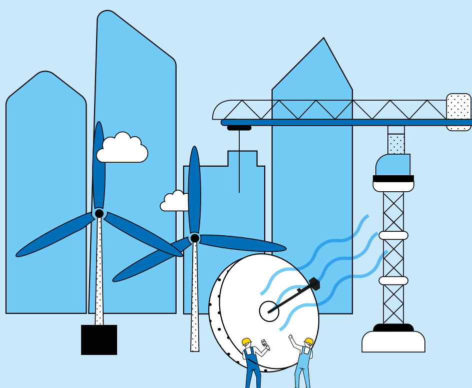
Each fund invests in a certain type of asset or, in the case of mixed funds, a balance of different assets. They can range from shares and bonds through to cash and property.

The type of asset, or asset class, which a fund invests in, can influence its approach to risk and returns. For example, you can expect a cautious fund to be less volatile, meaning its less likely to go up and down than an adventurous fund. However, over the longer term, an adventurous fund could generate higher returns.

Geographic regions

You can diversify your investment across different geographical regions. This means potentially spreading the risks across those geographical regions and may give you the opportunity to enjoy growth from foreign markets.

A fund's geographic focus can influence its approach to risk. Some foreign markets may face regular volatility, while currency fluctuations could also affect investment returns. Diversifying your investments across different geographic regions can help to manage this risk.

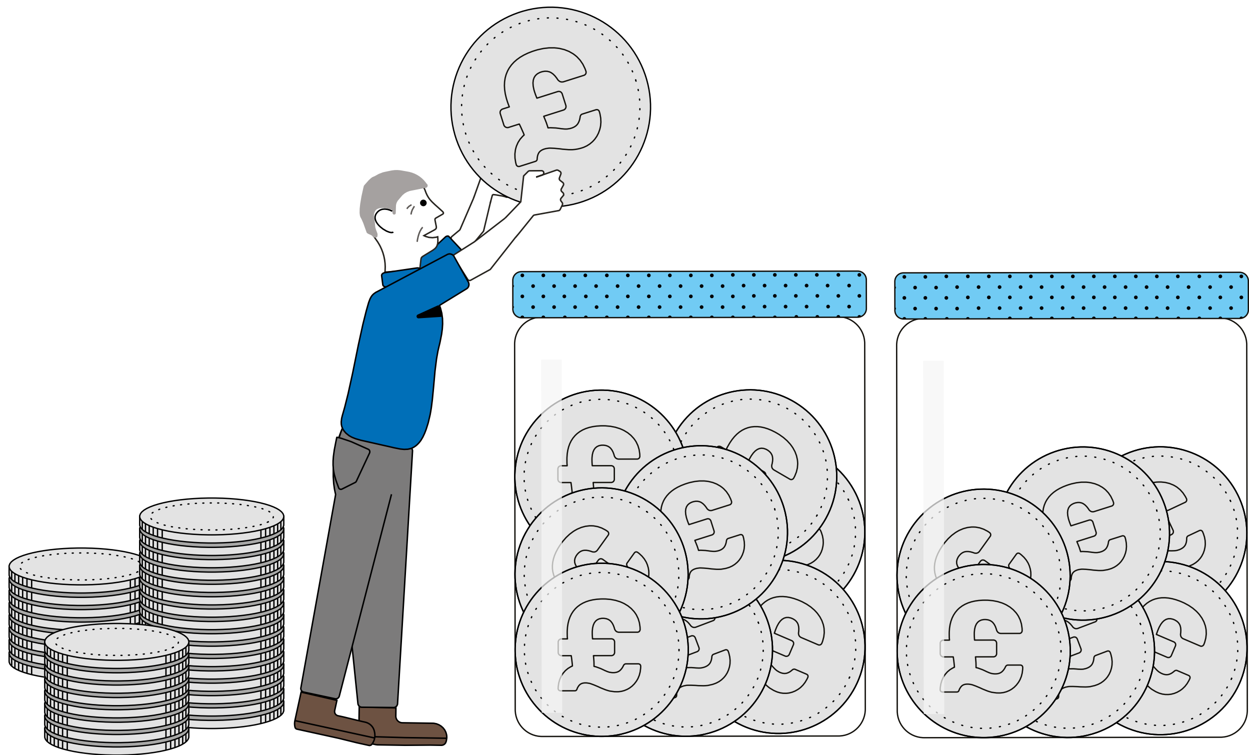


Sectors

Along with assets and regions, some funds only invest in specific industries, or companies of a certain size.

Health, pharmaceuticals, property, technology and telecoms are among the sectors which they may choose to specialise in.

Many of the funds we advise on, can consider any preferences you may have from an environmental, social and governance perspective. Your adviser can talk you through your options.



The importance of diversification

Whichever fund you choose, you'll deal with some level of risk. Even funds that focus on less volatile areas face an element of uncertainty. While risks can't be avoided completely, diversification can help mitigate it.

Investments can both lose and gain value over time. There is no guarantee, but diversification could help protect you from swings in investment values.

It broadly refers to the process of creating a balanced investment portfolio that covers a range of assets, sectors and geographic regions. In other words, it's the opposite of putting all your eggs in one basket. The idea is that if one part of your portfolio experiences volatility, it'll be balanced out by other parts. In contrast, by only investing in one area, you'd be exposed if you suffered a downturn.

Helping you choose where to invest

When it comes to helping you choose where to invest, our advisers can help you understand your attitude to risk. Choosing where to invest becomes easier once you know what you're comfortable with.

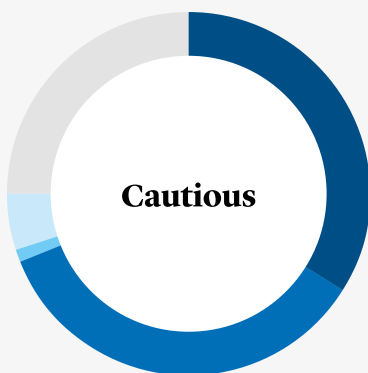
Our advisers will take you through an attitude to risk questionnaire, which is included with this brochure. Have a read before meeting them.

The pie charts below are examples of the different types of investment portfolio and the likely percentage splits they can offer.

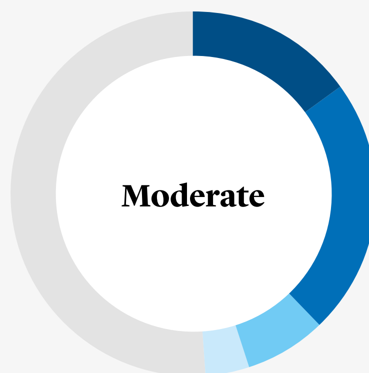
For the cautious profile, the investments lean more toward cash/absolute returns.

An absolute return is a type of investment that aims to provide low, gradual growth regardless of whether the markets are rising or falling.

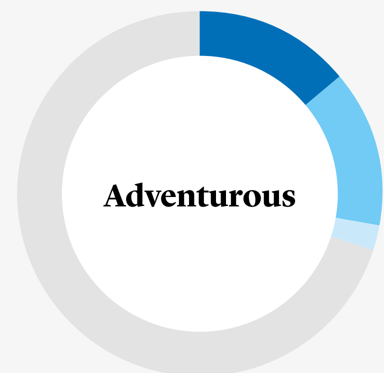
Investment portfolio examples:



Cash/Absolute Return	34%
Bonds	35%
Commodities	1%
Property	5%
Equities	25%



Cash/Absolute Return	15%
Bonds	23%
Commodities	7%
Property	4%
Equities	51%



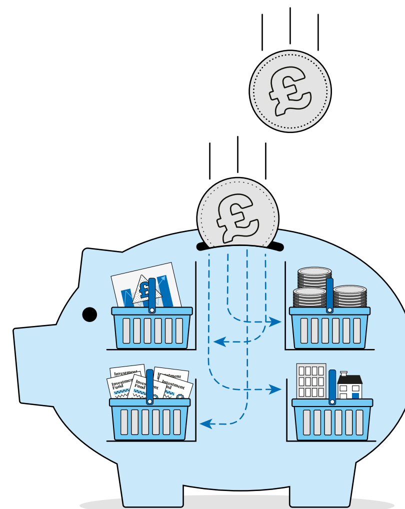
Cash/Absolute Return	0%
Bonds	14%
Commodities	14%
Property	2%
Equities	70%

By creating a balanced portfolio, you can take steps to mitigate the risks that are attached to investing.

The main types of investment fund explained

There are thousands of options out there, covering the full range of assets, geographic regions and sectors. Each will have a different approach to risk. When you invest with us, we'll advise you on what to choose from our specially selected funds.

Here's an overview of some of the common types of investment fund and what you can expect from them.

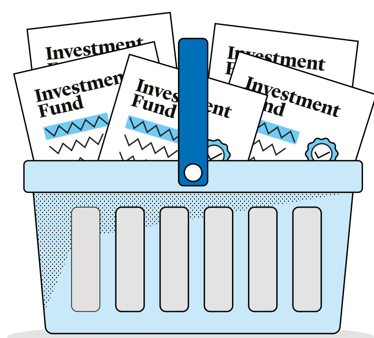


Active funds

While active funds can still invest in a combination of assets, an active fund employs a fund management team to actively decide where to invest your money. The job of the fund management team is to buy and sell assets on behalf of investors, to try to beat the wider market.

On the plus side, they aim to take the pressure off the individual investors, with a dedicated fund management team of industry specialists carrying out detailed research on their behalf.

However, the involvement of hands-on professional management teams means active funds tend to command higher charges, and while fund managers might aim to outperform a certain benchmark, it's not guaranteed they'll be successful.



Passive or index funds

At the opposite end of the spectrum are passive funds, or index funds, which tend to have lower charges attached to them.

Passive funds are designed to broadly track the performance of a market or sector, for example the FTSE 100 Index.

These funds offer several potential benefits to investors. For instance, their charges tend to be lower than active funds, because they don't rely quite as heavily on the expertise of hands-on fund managers. They can also save people valuable time, since they don't have to hand-pick investments themselves.

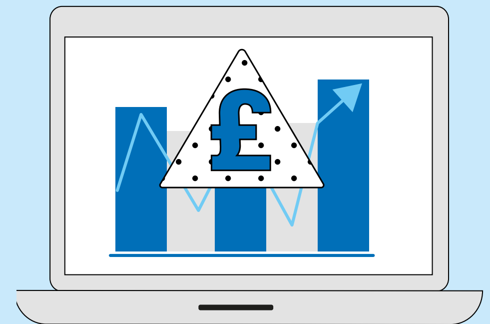
Passive funds aren't designed to beat the wider market, but instead match the performance of a particular market or sector.

Remember, investments can go down as well as up and there are no guarantees.

Helping you manage your investments

There are a few other things to consider when investing in or approaching your retirement.

Regularly review your portfolio



We recommend you take advantage of our advised review service. We annually review your investments, and can advise whether you should make changes, for a fee.

If you forget about your investments and lose track of their performance, your returns could start to suffer. For example, you may have been focusing on higher-risk investment funds with the potential for stronger returns, but as your retirement date draws closer, you may need to rebalance your portfolio more towards lower-risk products.

Carefully review risks and charges

When we advise you on the right investment for you, we consider your attitude to risk, and the charges attached to a fund.

The assets, geographies and sectors of a fund can all influence its approach to risk and charges. The structure of a fund and its management style can also have an impact.

We consider all this when making our recommendation.

Ultimately, investing can be complicated, but understanding your own attitude to risk and how funds work, will help you make the right investment decisions.

Get in touch with any questions

You can call us free on:

0800 072 0017

Lines are open Monday to Friday, 9am-5pm.
Calls may be recorded and monitored.

Find more information at:
legalandgeneral.com/LGFA

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